

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name TOWNSHIP OF GAINES	County GENESEE
Audit Date 5/12/05	Opinion Date 5/12/05	Date Accountant Report Submitted to State: 7/31/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) TAYLOR & MORGAN, P.C.			
Street Address G-2302 STONEBRIDGE DRIVE BLDG D		City FLINT	State MI
Accountant Signature <i>Edmund A. Morgan, CPA</i>		ZIP 48532	Date 7/26/2005

TOWNSHIP OF GAINES

GENESEE COUNTY

STATE OF MICHIGAN

TOWNSHIP BOARD MEMBERS

Paul Fortino
Supervisor

Michael Dowler
Clerk

Diane Hyrman
Treasurer

Susan Somers
Trustee

Lee Purdy
Trustee

TOWNSHIP OF GAINES
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Certified Public Accountants

Independent Auditor's Report

May 12, 2005

Township Board
Township of Gaines
Genesee County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Township of Gaines as of and for the year ended March 31, 2005, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Township of Gaines as of March 31, 2005 and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Township has implemented a new reporting model as required by the provisions of the Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments* and Governmental Accounting Standards Board Statement No. 38, *Certain Financial Statement Note Disclosures*, as of April 1, 2004.

The management's discussion and analysis and budgetary comparison information identified in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Township of Gaines' basic financial statements. The accompanying other supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Sincerely,

Taylor & Morgan, P.C.

Taylor & Morgan, P.C.
Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

**TOWNSHIP OF GAINES
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2005**

Our discussion and analysis of the Township of Gaines' financial performance provides an overview of the Township's financial activities for the fiscal year ended March 31, 2005. Please read it in conjunction with the Township's financial statements. Certain comparative information, ordinarily required, is not available the first year that the financial statements are prepared according to GASB 34 guidelines. Subsequent reports will include a prior year comparison of results.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended March 31, 2005.

State shared revenues, our largest revenue source, was reduced by about \$28,750 by the State of Michigan this year. In light of continuing State budget problems, and constant threat(s) to take away all revenue sharing, the Township has reacted by invoking tighter controls over all expenditures.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets, and the statement of activities, provide information about the activities of the Township of Gaines as a whole and present a longer-term view of the Township's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing governmental services.

The fund financial statements present a short-term view; they tell us how the taxpayers resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Township's operations in more detail than the government-wide financial statements by providing information about the Township's most significant funds. The fiduciary fund statements provide financial information about the activities for which the Township acts solely as a trustee or agent for the benefit of those outside of the government.

The Township of Gaines as a Whole

The following table shows, in condensed format, the net assets as of the current date (in thousands of dollars):

	Governmental Activities <u>2005</u>	Business-type Activities <u>2005</u>	Total <u>2005</u>
Non-capital assets	\$ 1,977,379	\$ 1,686,314	\$ 3,663,693
Capital assets	580,250	413,697	993,947
Current liabilities	(432,606)	(1,305)	(433,911)
Total net assets	<u>\$ 2,125,023</u>	<u>\$ 2,098,706</u>	<u>\$ 4,223,729</u>

Township of Gaines net assets of governmental activities are \$2,125,023 and \$2,098,706 for business type activities; of these amounts \$1,441,820 (governmental) and \$1,685,009 (business-type) are unrestricted assets.

**TOWNSHIP OF GAINES
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2005**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Revenue			
Program Revenue			
Charges for services	\$ 381,546	\$ 285,019	\$ 666,565
Operating grants and contributions	27,093		27,093
General revenue:			
Property taxes	145,795		145,795
Special assessments	266,709		266,709
State-shared revenue	456,228		456,228
Interest	18,636	43,230	61,866
Franchise fees and other revenue	<u>28,405</u>		<u>28,405</u>
Total revenue	<u>1,324,412</u>	<u>328,249</u>	<u>1,652,661</u>
Program expenses			
General government	225,404		225,404
Public works	473,415		473,415
Fire protection	198,053		198,053
Police protection	37,499		37,499
Road improvements	387,547		387,547
Sewer		246,098	246,098
Other	<u>109,537</u>		<u>109,537</u>
Total program expenses	<u>1,431,455</u>	<u>246,098</u>	<u>1,677,553</u>
Change in net assets	<u>\$ (107,043)</u>	<u>\$ 82,151</u>	<u>\$ (24,892)</u>

Governmental Activities

The Township of Gaines total governmental activity revenues were \$1,324,412. There was a decrease in State-shared revenue, which was offset by a slight increase in property taxes and fees and permits.

Governmental activity expenditures of \$1,431,455 were recorded for the year. This included increases in property and liability insurance rates.

The Township's capital assets increased by \$217,125, from \$1,454,834 to \$1,671,959. This increase is in large part due to the purchase of a 2005 Fire Truck.

Business Type Activities

The Township also provides municipal water and sanitary sewer to some residents.

Township of Gaines Funds

The fund financial statements provide detailed information about the most significant funds, not the Township of Gaines as a whole. The Township Board of Trustees creates funds to help manage money for specific purposes as well as show accountability for certain activities.

**TOWNSHIP OF GAINES
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED MARCH 31, 2005**

a) **General Fund**

Functions relating to the general governmental activities of the Township, which are financed by property tax levies, by distribution of State revenues from fees charged for various municipal activities and services are recorded in the General Fund. The day to day operation expenses for the Fire Department is also paid out of the General Fund.

b) **Special Revenue Fund**

Gaines Township has a special assessment to pay for Township wide Garbage collection.

Paving Project Activities

The Township self-funded four paving projects and created special assessment districts for these improvements. The affected residents had an option to pay in full at time of completion or make payments over ten years. The four districts are Elms Road, Reid Road, Hill Road, and Van Vleet Road. Elms Road Special Assessment began in 1999 with an initial assessment of \$71,249.99. Reid Road Special Assessment began in 2002 with an initial assessment of \$219,728.06. Hill Road Special Assessment began in 1999 with an initial assessment of \$142,518.52. Van Vleet Road Special Assessment began in 2004 with an initial assessment of \$266,709. The payments from these special assessment districts are recorded as revenues in the General Fund when received. Any delinquencies have been immaterial.

General Fund Budgetary Highlights

Over the course of the year, the Township Board monitors and amends the budget to account for unanticipated events during the year. The most significant change was a decrease in State shared revenue. Prudent budgeting and continued monitoring of all expenditures reduced the effect of these State cuts. The Township was also faced with a legal settlement that was taken out of General Fund. Continued growth in Gaines Township has increased the revenue from fees and permits. With the continued growth the township board has created a capital outlay budget line for needed road improvements. Severe weather caused unanticipated damage to the township hall, which resulted in roof replacement and HVAC upgrades. As a whole the township with prudent budgeting and continued monitoring of all expenditures is in great financial health.

Economic Factors and Next Years Budgets and Rates

As this budget year closes there are a number of factors that will influence next years budget, including the fact that State Shared Revenue continues to be cut.

Contacting the Township of Gaines Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Township of Gaines' finances, and to show the Township's accountability for the money it receives. If you have any questions about this report, or need additional information, we welcome you to contact the administration offices at the Township Hall.

BASIC FINANCIAL STATEMENTS

TOWNSHIP OF GAINES
GOVERNMENT WIDE STATEMENT OF NET ASSETS
MARCH 31, 2005

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash, cash equivalents and investments	\$ 1,568,342	\$ 1,630,160	\$ 3,198,502
Receivables (net)	409,037	50,909	459,946
Due from other funds	-	5,245	5,245
Capital assets (net)	580,250	413,697	993,947
Total assets	2,557,629	2,100,011	4,657,640
Liabilities			
Accounts payable	50,810	1,305	52,115
Due to other governmental units	381,796	-	381,796
Total liabilities	432,606	1,305	433,911
Invested in capital assets, net of related debt	580,250	413,697	993,947
Restricted for:			
Capital Projects	102,953	-	102,953
Unrestricted	1,441,820	1,685,009	3,126,829
Total net assets	\$ 2,125,023	\$ 2,098,706	\$ 4,223,729

TOWNSHIP OF GAINES
GOVERNMENT WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2005

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	Totals
Functions/Programs:						
Primary government						
General government						
Public works	\$ 225,404	\$ 381,546	\$ 17,093	\$ 173,235	\$ -	\$ 173,235
Fire protection	473,415	-	-	(473,415)	-	(473,415)
Police protection	198,053	-	10,000	(188,053)	-	(188,053)
Road improvements	37,499	-	-	(37,499)	-	(37,499)
Other	387,547	-	-	(387,547)	-	(387,547)
	109,537	-	-	(109,537)	-	(109,537)
Total governmental activities	1,431,455	381,546	27,093	(1,022,816)	-	(1,022,816)
Business-type activities						
Water and waste	246,098	285,019	-	-	38,921	38,921
Total primary government	\$ 1,677,553	\$ 666,565	\$ 27,093	(1,022,816)	38,921	(983,895)
General revenues						
Property tax				145,795	-	145,795
Special assessments				266,709	-	266,709
State-shared revenues				456,227	-	456,227
Unrestricted investment earnings				18,747	43,230	61,977
Franchise fees				18,990	-	18,990
Miscellaneous				9,415	-	9,415
Total general revenues				915,883	43,230	959,113
Change in net assets				(106,933)	82,151	(24,782)
Net assets - beginning				2,232,066	2,016,555	4,248,621
Net assets - ending				\$ 2,125,133	\$ 2,098,706	\$ 4,223,839

**TOWNSHIP OF GAINES
BALANCE SHEET
GOVERNMENTAL FUNDS
MARCH 31, 2005**

	General	Special Revenue	Capital Projects	Total Governmental Funds
<u>Assets</u>				
Cash and cash equivalents	\$ 974,568	\$ 237,678	\$ 157,757	\$ 1,370,003
Investments	198,339			198,339
Receivables				
Delinquent taxes	11,659	17,475	5,673	34,807
Accounts	64,678	-	-	64,678
Interest	7,366	-	-	7,366
Special assessments	302,186	-	-	302,186
Due from other funds	-	-	321,319	321,319
Total assets	<u>\$ 1,558,796</u>	<u>\$ 255,153</u>	<u>\$ 484,749</u>	<u>\$ 2,298,698</u>
<u>Liabilities and Fund Equity</u>				
<u>Liabilities</u>				
Accounts payable	\$ 50,810	\$ -	\$ -	\$ 50,810
Deferred revenue	302,186	-	-	302,186
Due to other governmental units	-	-	381,796	381,796
Due to other funds	321,319	-	-	321,319
Total liabilities	674,315	-	381,796	1,056,111
<u>Fund Equity</u>				
Fund equity				
Unreserved - designated	17,803	-	-	17,803
Unreserved - undesignated	866,678	255,153	-	1,121,831
Reserved for capital projects	-	-	102,953	102,953
Total fund equity	884,481	255,153	102,953	1,242,587
Total liabilities & fund equity	<u>\$ 1,558,796</u>	<u>\$ 255,153</u>	<u>\$ 484,749</u>	<u>\$ 2,298,698</u>

The notes to the financial statements
are an integral part of this statement.

TOWNSHIP OF GAINES
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
MARCH 31, 2005

Total Governmental Fund Balances		\$ 1,242,587
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		
Cost of net assets	\$ 1,077,673	
Accumulated depreciation	<u>(497,423)</u>	580,250
Deferred revenue for special assessment receivables are reported as liabilities in the governmental funds and as revenue or other financing sources in the statement of net assets.		<u>302,186</u>
Total net assets - governmental activities		\$ <u><u>2,125,023</u></u>

TOWNSHIP OF GAINES
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED MARCH 31, 2005

	General	Special Revenue	Capital Projects	Total Governmental Funds
Revenues				
Taxes	\$ 145,795	\$ -	\$ -	\$ 145,795
Special assessments	-	293,347	107,557	400,904
Fees and permits	107,080	-	-	107,080
Intergovernmental	435,238	-	-	435,238
Administrative services	38,083	-	-	38,083
Fire contract	10,000	-	-	10,000
Interest	17,794	493	460	18,747
Miscellaneous	9,415	108	-	9,523
Total revenues	763,405	293,948	108,017	1,165,370
Expenditures				
General government	220,203	-	-	220,203
Public works	203,746	269,669	-	473,415
Fire protection	139,770	-	-	139,770
Police protection	37,499	-	-	37,499
Other	109,537	-	387,547	497,084
Capital outlay	206,771	-	-	206,771
Total expenditures	917,526	269,669	387,547	1,574,742
Excess (deficiency) of revenues over (under) expenditures	(154,121)	24,279	(279,530)	(409,372)
Other financing sources (uses)				
Operating transfers in (out)	(300,000)	-	300,000	-
Paving project reimbursements	70,039	-	(70,039)	-
Total other financing sources (uses)	(229,961)	-	229,961	-
Excess of revenues over (under) expenditures and other financing sources (uses)	(384,082)	24,279	(49,569)	(409,372)
Fund balance - beginning of year	1,268,563	230,874	152,522	1,651,959
Fund balance - end of year	\$ 884,481	\$ 255,153	\$ 102,953	\$ 1,242,587

The notes to the financial statements
are an integral part of this statement.

TOWNSHIP OF GAINES
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2005

Total net change in fund balances - governmental funds \$ (409,372)

Amounts reported for governmental activities in the statement
of activities are different because:

Governmental funds report capital outlays as expenditures.
However, in the statement of activities, the cost of those
assets is allocated over their estimated useful lives as
depreciation expense. This is the amount by which capital
outlay exceeded depreciation in the current period.

Capital Outlay	\$	206,771	
Depreciation Expense		<u>(63,484)</u>	143,287

Governmental funds report payments received on special
assessments as revenue when received. However, in the
statement of activities, these revenues are recorded when
they are earned.

New special assessments	\$	266,709	
Current collection of special assessments		<u>(107,557)</u>	<u>159,152</u>

Change in net assets of governmental activities \$ (106,933)

TOWNSHIP OF GAINES
BUSINESS-TYPE ACTIVITIES-WATER AND WASTE FUND
STATEMENT OF NET ASSETS
MARCH 31, 2005

ASSETS		
Cash & cash equivalents	\$	1,238,715
Investments		391,445
Due from other funds		5,245
Receivables:		
Accounts		14,114
Interest		36,795
Property & equipment - net		<u>413,697</u>
Total assets		<u>2,100,011</u>
LIABILITIES		
Accounts payable		<u>1,305</u>
Total liabilities		<u>1,305</u>
NET ASSETS		
Invested in capital assets		413,697
Unrestricted net assets		<u>1,685,009</u>
Total net assets	\$	<u><u>2,098,706</u></u>

TOWNSHIP OF GAINES
BUSINESS-TYPE ACTIVITIES-WATER AND WASTE FUND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
FOR THE YEAR ENDED MARCH 31, 2005

Operating revenues	
Charges for services	\$ <u>285,019</u>
Total operating revenues	285,019
Operating expenses	
Depreciation	7,769
Pump maintenance	43,432
County sewer charges	73,765
County water charges	111,355
City and village charges	227
Tap in costs	<u>9,550</u>
Total operating expenses	<u>246,098</u>
Operating income/(loss)	38,921
Non-operating revenues (expenses)	
Interest income	<u>43,230</u>
Total non-operating revenues/(expenses)	<u>43,230</u>
Change in net assets	82,151
Net assets - beginning of year	<u>1,602,858</u>
Net assets - end of year	\$ <u><u>1,685,009</u></u>

**TOWNSHIP OF GAINES
BUSINESS-TYPE ACTIVITIES-WATER AND WASTE FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MARCH 31, 2005**

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers	\$ 275,138
Payments to suppliers	<u>(237,024)</u>
Net cash provided (used) by operating activities	<u>38,114</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Transfers to other funds	<u>(5,245)</u>
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CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Purchases of capital assets	<u>(11,600)</u>
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CASH FLOWS FROM INVESTING ACTIVITIES

Interest earned on investments	84,548
Purchases of investments	<u>(200,000)</u>
Net cash provided (used) by investing activities	<u>(115,452)</u>

Net increase (decrease) in cash & cash equivalents	(94,183)
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Cash and cash equivalents - beginning of year	<u>1,332,898</u>
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Cash and cash equivalents - end of year	<u>\$ 1,238,715</u>
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Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities

Operating income	\$ 38,921
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	7,769
Change in assets and liabilities	
Accounts receivable	(9,881)
Accounts payable	<u>1,305</u>
Net cash provided by operating activities	<u>\$ 38,114</u>

TOWNSHIP OF GAINES
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
MARCH 31, 2005

	<u>Agency Funds</u>
Assets:	
Cash and cash equivalents	\$ <u>6,260</u>
Total Assets	\$ <u><u>6,260</u></u>
Liabilities:	
Due to other governmental units	\$ 1,015
Due to other funds	<u>5,245</u>
Total Liabilities	\$ <u><u>6,260</u></u>

NOTES TO FINANCIAL STATEMENTS

**TOWNSHIP OF GAINES
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2005**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Township of Gaines conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Township:

Government-wide and fund financial statements

The government-wide financial statements (i.e. the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, normally supported by taxes and inter-governmental revenue, are reported separately from business-type activities which rely, to a significant extent, on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items properly excluded from program revenue are reported as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the governmental-wide financial statements. Major individual governmental funds and the major enterprise funds are reported in separate columns in the fund financial statements.

Reporting entity

The nucleus of the financial reporting entity as defined by the Governmental Accounting Standards Board (GASB) Statement No. 14 is the "primary government". A fundamental characteristic of a primary government is that its' members are selected by the people in a general election. In addition to having an elected board, a primary government must be both a legally separate and a fiscally independent entity. Thus, Gaines Township qualifies as "primary government" for financial reporting purposes. In evaluating how to define the financial reporting entity, management has considered all potential component units. A component unit is a legally separate entity for which the primary government is financially accountable. The basic criterion of financial accountability is; the primary government is accountable for and able to impose its will upon the potential component unit.

Measurement focus, basis of accounting and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

TOWNSHIP OF GAINES
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2005

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to claims and judgments are recorded only when payment is due.

Those revenues susceptible to accrual are property taxes, special assessments, licenses, interest revenue, and charges for services. Sales taxes collected and held by the State at year end on behalf of the government also are recognized as revenue. Fines, permits, and fee revenues are not susceptible to accrual because generally they are not measurable until received in cash.

The Township reports the following major governmental funds:

- The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The Waste and Refuse Fund accounts for special assessments that are restricted for sanitary services.
- The Capital Projects Fund accounts for special assessments and other revenue that is restricted for capital asset and infrastructure improvements.

The Township reports the following Major Proprietary Funds:

- The Water and Waste Fund accounts for the cost of collection and treating of waste waters.

Additionally, the Township reports the following:

Agency Funds – The Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected not to follow private-sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

TOWNSHIP OF GAINES
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2005

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds, relate to charges to customers for sewage disposal. The Water and Waste Fund also recognizes tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. Connection fees intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sewage disposal, operations and maintenance, general and administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Property tax revenue

Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

The Township's 2004 ad valorem tax is levied and collectible on July 1, 2004, and is recognized as revenue in the year ended March 31, 2005, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2004 taxable valuation of the Township of Gaines is \$158,339,036 on which ad valorem taxes levy consisted of .8663 mills for operating purposes. The township bills and collects its own property taxes and also taxes for the school districts of Swartz Creek, Linden, and Durand, and for Genesee County. Collection on all taxes and remittance of them to the various taxing jurisdictions are accounted for in the tax collections fund. Township property tax revenues are recognized when levied.

Assets, liabilities and net assets or equity

Cash and cash equivalents – The Township has defined cash and cash equivalents to include cash on hand, demand deposits, and short-term investments with a maturity of 3 months or less when acquired.

Receivables and payables – In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

Prepaid items – Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Capital assets – Capital assets, which include property, plant, and equipment, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

TOWNSHIP OF GAINES
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2005

Property, plant and equipment is depreciated using the straight-line method over the following useful lives.

Land improvements	10 to 20 years
Building and building improvements	25 to 40 years
Vehicles	5 to 10 years
Machinery and equipment	5 to 10 years

Fund equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Comparative data

Comparative data is not included in the Township's financial statements.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary information

Public Act 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amount budgeted. In the body of the financial statements, the Township's actual and budgeted expenditures for the period have been shown as adopted by function on a modified accrual basis.

Excess of expenditures over appropriations in budgeted funds

During the year, the Township incurred expenditures in certain budgeted funds which were in excess of the amounts appropriated, as follows:

<u>Budget item</u>	<u>Budget Appropriation</u>	<u>Actual Expenditure</u>
General Fund-Lawsuit Settlement	\$-0-	\$15,405
General Fund-Capital Outlay	\$181,600	\$206,771

**TOWNSHIP OF GAINES
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2005**

NOTE 3 – CASH AND INVESTMENTS

Michigan Compiled Laws, Section 129.91 authorizes the Township to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other obligations of the United States, or any agency or instrumentality of the United States. United States government or federal agency obligations; repurchase agreements; bankers acceptance of United States Banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or any of its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The investment policy adopted by the Board authorized all of the investments allowable under Michigan law.

The Township of Gaines deposit and investment policy are in accordance with statutory authority.

The Township maintains separate deposit accounts for the General Fund, Special Revenue Fund, Business-type Fund, Fiduciary Fund and Capital Projects Fund. At March 31, 2005, the carrying amount of the Township's deposits was \$2,614,861 and the bank balance was \$2,693,056. Of the bank balance, \$300,000 was covered by Federal depository insurance and \$2,393,056 was uninsured and uncollateralized.

The Township's investments are categorized as follows to give an indication of the level of risk assumed by the liability at March 31, 2005. Category one includes investments that are insured or registered for which the securities are held for the district or its agency in the Township's name. Category two includes uninsured and unregistered investments for which the broker or dealers hold the securities trust department or agent in the Township's name. Category three includes uninsured and unregistered investments for which securities are held by the broker or dealers, or by its trust department or agency but not in the Township's name. The Township had the following classification of investments at March 31, 2005:

	<u>One</u>	<u>Category Two</u>	<u>Three</u>	<u>Carrying Amount</u>	<u>Market Value</u>
<u>General Fund</u>					
Corporate Bonds	\$	\$198,339	\$	\$198,339	\$198,339
<u>Business-type Fund</u>					
Corporate Bonds		391,445		391,445	391,445
Total	\$ -0-	<u>\$589,784</u>	\$ -0-	<u>\$589,784</u>	<u>\$589,784</u>

TOWNSHIP OF GAINES
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2005

NOTE 4- CAPITAL ASSETS

Summary of capital asset transactions of the primary government:

	Balance April 1, 2004	Additions	Disposals and Adjustments	Balance March 31, 2005
Governmental activities				
Land & improvements	\$ 10,400	\$	\$	\$ 10,400
Buildings & additions	201,847	6,175		208,022
Furniture & equipment	201,900	62,211		264,111
Fire trucks & other vehicles	<u>458,000</u>	<u>137,139</u>		<u>595,139</u>
Subtotal	872,147	205,525		1,077,672
Accumulated Depreciation:				
Buildings & additions	134,409	5,200		139,609
Furniture & equipment	43,230	21,898		65,128
Fire trucks & other vehicles	<u>256,300</u>	<u>36,385</u>		<u>292,685</u>
Subtotal	<u>433,939</u>	<u>63,483</u>		<u>497,422</u>
Governmental activities net capital assets	<u>\$ 438,208</u>	<u>\$ 142,042</u>	<u>\$</u>	<u>\$ 580,250</u>
Business-type activities				
Sewer system	\$ 582,687	\$ 11,600	\$	\$ 594,287
Subtotal	582,687	11,600		594,287
Accumulated Depreciation:				
Sewer system	<u>172,821</u>	<u>7,769</u>		<u>180,590</u>
Subtotal	<u>172,821</u>	<u>7,769</u>		<u>180,590</u>
Business-type activities net capital assets	<u>\$ 409,866</u>	<u>\$ 3,831</u>	<u>\$</u>	<u>\$ 413,697</u>

Depreciation expense was charged to programs of the primary government as follows:

Government activities	
General Government	\$ 5,200
Fire Protection	<u>58,283</u>
Total governmental activities	<u>\$ 63,483</u>

Business-type activities	
Sewer	\$ 7,769
Total business-type activities	<u>\$ 7,769</u>

**TOWNSHIP OF GAINES
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2005**

NOTE 5- INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

As of March 31, 2005, the Township had the following interfund payables, receivables and transfers:

	<u>Due to Other Funds</u>	<u>Due From Other Funds</u>	<u>Transfers to Other Funds</u>	<u>Transfers From Other Funds</u>
General Fund	\$ 321,319	\$	\$ 300,000	\$
Capital Projects Fund		321,319		300,000
Business-type Fund		5,245		
Fiduciary Fund	5,245			
	<u>\$ 326,564</u>	<u>\$ 326,564</u>	<u>\$ 300,000</u>	<u>\$ 300,000</u>

Amounts due to Capital Projects Fund from General Fund reflect transfers that were budgeted between these funds for which money had not been physically transferred as of year end.

Amounts due to Business-type Fund from Fiduciary Fund reflect the removal of an old outstanding deposit that never cleared in the Business-type Fund.

Transfers from General Fund to Capital Projects Fund were to cover costs associated with the Van Vleet road paving project.

NOTE 6 - RISK MANAGEMENT

The Township is exposed to various risks of loss related to property loss, torts, errors, and omissions and employee injuries (workers compensation), as well as medical benefits provided to employees. The Township has purchased commercial insurance for all its insurance needs.

NOTE 7 - PENSION PLAN

The Township has a qualified, contributory defined contribution pension plan covering elected officials and eligible employees. Eligible employees are those who work 40 hours per week on a regular basis. Manu Life Financial administers the plan, which was adopted by the Township Board on March 6, 1991. The Township will make contributions to the plan of 10% employees' annual compensation. Compensation is defined as the basic annual rate of pay in effect at the beginning of the plan year, not including overtime pay, bonuses, and commissions. For the fiscal year ended March 31, 2005, actual Township contributions totaled \$6,910. Participant plan contributions begin immediately with no waiting period for vesting. The plan is referred to as a money purchase pension plan and is not insured by the Pension Benefit Guaranty Corporation (PBGC).

TOWNSHIP OF GAINES
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2005

NOTE 8 - BUILDING AND SIMILAR FEES

Michigan Department of Treasury Local Audit Letter 2000-6 states that local units can retain compliance with P.A. 245 of 1999, Statewide Construction Code Act, by accounting for building department revenues in the General Fund only as long as the local unit's fee structure is not intended to recover the full cost of the enforcing agency and the local unit has the ability to track the full costs and revenues of this activity without creating a separate fund. The Township of Gaines complies with these provisions, and therefore, the building department activity is recorded in the General Fund.

Building department revenues and expenditures for the year ended March 31, 2005, are as follows:

Revenues	\$70,487
Expenditures	\$65,407

The expenditures listed above include only direct costs for the building department; an allocation for occupancy, insurance and other indirect costs is not included. It is management's opinion that, were the indirect costs included, building department revenues would not recover the full cost of the activity.

NOTE 9 - ACCOUNTING AND REPORTING CHANGE

GASB 34

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments*. The Township of Gaines has applied the provisions of this statement and related GASB statements in the accompanying financial statements (including the notes to financial statements). The Township has elected to implement the general provisions of the statement. Certain significant changes in the statement include the following:

- A management's discussion and analysis (MD&A) section providing an analysis of the Township's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the Township's activities .
- A change in the fund financial statements to focus on the major funds.
- Capital assets at April 1, 2004 previously reported in the General Fixed Assets Account Group have been adjusted from \$1,411,599 to \$438,208 to reflect the historical cost and accumulated depreciation of the Township 's capital assets at that date.

REQUIRED SUPPLEMENTAL INFORMATION

TOWNSHIP OF GAINES
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE-GENERAL FUND
FOR THE YEAR ENDED MARCH 31, 2005

	Budgeted Amounts			Variance Over/(Under)
	Original	Final	Actual	Final Budget
Revenues				
Taxes	\$ 142,000	\$ 142,000	\$ 145,795	\$ 3,795
Fees & permits	66,725	76,712	107,080	30,368
Intergovernmental	432,093	432,093	435,238	3,145
Administrative services	35,000	35,000	38,083	3,083
Fire contract	10,000	10,000	10,000	-
Interest	1,000	10,000	17,794	7,794
Miscellaneous	1,000	22,914	9,415	(13,499)
Total revenues	687,818	728,719	763,405	34,686
Expenditures				
General government				
Trustees	3,420	2,470	2,420	50
Supervisor	12,240	12,338	12,337	1
Assessor	33,000	32,055	32,055	-
Elections	10,000	5,568	5,568	-
Clerk	17,240	18,043	18,102	(59)
Board of review	2,200	1,900	1,900	-
Treasurer	17,240	18,175	18,175	-
Building & grounds	22,100	42,844	22,219	20,625
General administration	102,500	101,024	107,427	(6,403)
Public works	180,143	200,770	203,746	(2,976)
Fire protection	136,000	136,000	139,770	(3,770)
Police protection	38,342	38,342	37,499	843
Other				
Planning commission	2,500	2,050	2,100	(50)
Zoning board of appeals	1,000	1,600	1,550	50
Insurance, bonds & fringes	32,000	25,058	25,075	(17)
Building inspector	40,000	61,882	65,407	(3,525)
Contingent lawsuit	9,293	-	15,405	(15,405)
Capital outlay	181,600	181,600	206,771	(25,171)
Total expenditures	840,818	881,719	917,526	(35,807)
Other financing sources (uses)				
Operating transfers out	(300,000)	(300,000)	(300,000)	-
Paving project reimbursements	-	-	70,039	70,039
Total other financing sources (uses)	(300,000)	(300,000)	(229,961)	70,039
Excess of revenues over (under) expenditures and other financing sources (uses)	(453,000)	(453,000)	(384,082)	68,918
Fund balance at beginning of year	1,268,563	1,268,563	1,268,563	-
Fund balance at end of year	\$ 815,563	\$ 815,563	\$ 884,481	\$ 68,918

TOWNSHIP OF GAINES
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE-SPECIAL REVENUE FUND-WASTE AND REFUSE
FOR THE YEAR ENDED MARCH 31, 2005

	<u>Budget</u>			Variance Over/(Under) Final Budget
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
Taxes	\$ 275,000	\$ 275,000	\$ 293,347	\$ 18,347
Miscellaneous	50	50	108	58
Interest	<u>500</u>	<u>500</u>	<u>493</u>	<u>(7)</u>
Total Revenues	275,550	275,550	293,948	18,398
Expenditures:				
Contracted Services	<u>267,754</u>	<u>267,754</u>	<u>269,669</u>	<u>(1,915)</u>
Total Expenditures	<u>267,754</u>	<u>267,754</u>	<u>269,669</u>	<u>(1,915)</u>
Net Change in Fund Balances	7,796	7,796	24,279	16,483
Fund Balance - July 1	<u>230,874</u>	<u>230,874</u>	<u>230,874</u>	<u>-</u>
Fund Balance - June 30	<u>\$ 238,670</u>	<u>\$ 238,670</u>	<u>\$ 255,153</u>	<u>\$ 16,483</u>

OTHER SUPPLEMENTAL INFORMATION



Certified Public Accountants

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

May 12, 2005

To the Township Board
Township of Gaines

We have audited the financial statements of the Township of Gaines as of and for the year ended March 31, 2005, and have issued our report thereon dated May 12, 2005. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether The Township of Gaines' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered The Township of Gaines' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the members of the board of The Township of Gaines.

Taylor & Morgan, P.C.
TAYLOR & MORGAN, P.C.
Certified Public Accountants



Certified Public Accountants

July 26, 2005

Township Board
Township of Gaines
Gaines, Michigan

We have audited the financial statements of the Township of Gaines as of and for the year ended March 31, 2005 and have issued our report thereon dated May 12, 2005. As part of our audit, we made a study and evaluation of the township's system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted accounting principles. The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the township's financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole.

The management of the Township of Gaines is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control taken as a whole. While our study and evaluation disclosed no condition that we believe to be a material weakness, the following are areas where reviews and/or modifications may be advisable.

GASB Statement No. 34

The Township of Gaines implemented GASB Statement No. 34, "*Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*" for the year ended March 31, 2005. This statement redefines and radically increases the type of financial reporting a governmental organization must provide to the readers of its audited financial statements.

The addition of government-wide financial statements and the Management's discussion and analysis (MD & A) to the existing financial statements helps the reader better assess the overall financial position of the governmental entity. The government wide financial statements were prepared using full accrual accounting and includes capital assets at depreciated value. The MD & A will include a summary and analysis of the government's financial activities and performance.

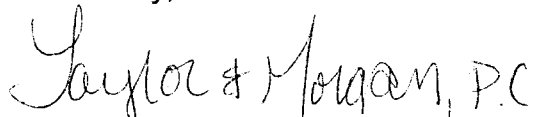
Budget vs. actual schedules are expanded to show the original budget, amended budget and actual results.

Building Department Receipting

We noted that while the building department uses pre-numbered receipts and receives a Monthly Permit Report from the contractor, it appears that there is no double check performed tracing the receipts back to the report. This additional step will help to ensure that all monies collected by the building department are being accounted for properly.

We are available to explain or help implement the above procedures, and we would like to thank the management of Gaines Township for their assistance during the audit.

Sincerely,



Taylor & Morgan, P.C.
Certified Public Accountants